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Industrial Development Board

Tenth session

SUMMARY RECORD OF THE 3rd MEETING

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on Tuesday, 3 November 1992, at 10 a.m.

President: Mr. BALAZS (Hungary)

CONTENTS

Agenda item		Paragraphs
4	Report of the Programme and Budget Committee (continued):	1 - 20
	(a) Report of the External Auditor, financial performance report and programme performance report for the biennium 1990-1991	
	(b) Use of unutilized balances of appropriations	
	(c) Implementation of the recommendations of the External Auditor for the financial period 1988-1989	
	(d) Financial situation of UNIDO	
	(e) Application of the split-currency system of assessment	
	(f) Operational budget: reimbursement for programme support and administrative services	
	(g) Guidelines and procedures governing acceptance and funding under special trust funds, Industrial Development Fund and the regular budget	
	(h) Medium-term plan, 1994-1999 (including general ceiling for the biennium 1994-1995)	
	(i) Industrial Development Fund and other voluntary contributions	
	(j) Electronic data-processing programme	
	(k) Financial regulation 4.1, paragraphs (d) and (e)	
	(l) UNIDO Country Director programme	
7	Guidelines for special trust fund projects	21 - 94
8	Mobilization of financial resources for industrial development	
9	The external debt and industrial development	

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The meeting was called to order at 10.30 a.m.

REPORT OF THE PROGRAMME AND BUDGET COMMITTEE (continued) (IDB.10/14)

(a) REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1990-1991 (continued) (IDB.9/10 and Corr.1 and 2; IDB.10/3, 4, 11 and Add.1, IDB.10/25)

(b) USE OF UNUTILIZED BALANCES OF APPROPRIATIONS (continued)

(c) IMPLEMENTATION OF THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR FOR THE FINANCIAL PERIOD 1988-1989 (continued) (IDB.10/6/Rev.1, IDB.10/26)

(d) FINANCIAL SITUATION OF UNIDO (continued) (IDB.10/9, 27)

(e) APPLICATION OF THE SPLIT-CURRENCY SYSTEM OF ASSESSMENT (continued) (PBC.8/11)

(f) OPERATIONAL BUDGET: REIMBURSEMENT FOR PROGRAMME SUPPORT AND ADMINISTRATIVE SERVICES (continued) (IDB.10/7, 8)

(g) GUIDELINES AND PROCEDURES GOVERNING ACCEPTANCE AND FUNDING UNDER SPECIAL TRUST FUNDS, INDUSTRIAL DEVELOPMENT FUND AND THE REGULAR BUDGET (continued) (IDB.10/10)

(h) MEDIUM-TERM PLAN, 1994-1999 (INCLUDING GENERAL CEILING FOR THE BIENNIUM 1994-1995) (continued) (IDB.10/5 and Add.1, IDB.10/29)

(i) INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS (continued) (IDB.9/10, chap. VIII, paras. 14-20 and appendix G; IDB.10/2)

(j) ELECTRONIC DATA-PROCESSING PROGRAMME (continued) (IDB.10/30)

(k) FINANCIAL REGULATION 4.1, PARAGRAPHS (d) AND (e) (continued)

(l) UNIDO COUNTRY DIRECTOR PROGRAMME (continued) (IDB.10/34)

1. Mr. MAJID (Iraq) said that the Organization's difficult financial situation put at risk its ability to fulfil its responsibilities, notwithstanding the constructive recommendations of the External Auditor and the commitment of the Director-General to the implementation of those recommendations. Under such circumstances, his delegation had serious doubts as to the feasibility of the ambitious programmes and projects proposed. The situation could only be remedied if Member States fulfilled their financial obligations.

2. If the problems besetting the Organization were to be resolved, it was essential that the priorities defined under the medium-term plan - priorities which had been enshrined in the Constitution - should be adhered to.

3. UNIDO faced a number of urgent problems, notably the need to appoint a new Director-General, the problem of its financial resources and the question of its relations with UNDP. Failure to solve those problems would have serious repercussions on an aspect of the Organization's work which ought to be given supreme priority, namely, its efforts to alleviate the situation of the developing countries in general, and of the least developed countries in particular. That task would not only involve action by UNIDO: it would also involve changes in capital flows and in the structure of international trade.

4. His delegation wished to express its concern at proposals to reduce the number of Country Directors owing to lack of resources. Adequate financial measures needed to be taken to ensure that the current number of UCDs could be maintained, or even increased.

5. His delegation welcomed the Director-General's report in document IDB.10/10, and particularly endorsed the statement regarding Standard Basic Cooperation Agreements in paragraph 5. It noted that only 18 countries had so far signed cooperation agreements with the Organization and would like to see such agreements covering all Member States.

6. A number of important projects had previously been under way in Iraq in association with UNIDO, but those projects had been brought to an abrupt halt following the aggression perpetrated against the country, aimed especially at its economic infrastructure, and notably the industrial and petroleum sectors. As a result, Iraq's need of UNIDO's technical assistance had become all the more urgent.

7. Mr. CHON (Observer for the Democratic People's Republic of Korea) said his delegation wished to associate itself with the statement made by the representative of Philippines on behalf of the Asian Group, and also to support the statement made by the representative of Thailand in regard to the UNIDO Country Director programme.

8. He fully shared the concern expressed by many delegations with regard to the critical financial situation facing UNIDO in regard to both its regular and operational budgets. It was regrettable that the total amount of outstanding contributions at the end of October 1992 had amounted to more than $53.7 million, or some 48 per cent of the assessed contributions for 1992. He was also alarmed to note that a deficit of $5.9 million in the operational budget was expected by the end of the year and that the Organization might face a situation of financial default during the course of 1993. While he would encourage the Secretariat to make additional efforts to achieve a balanced operational budget in line with the recommendation of the Programme and Budget Committee in conclusion 92/5, he also looked forward to a speedy improvement in the situation regarding payment of Member States' assessed contributions. His own Government was having difficulty in meeting its assessed contribution for 1992, as a result of an unexpected and drastic increase of 300 per cent in its scale of assessment for that year. However, it hoped to meet its obligation before the end of the current year as soon as the necessary supplementary budget adjustment procedure had been finalized.

9. Since the only solution to the current financial crisis lay in the prompt payment by Member States of their financial contributions, it would appear that the time had come to consider some kind of incentive scheme to encourage regular payment. His delegation would support such a

scheme and would encourage the Secretariat to study the question with a view to presenting a concrete proposal for the Board's consideration. In that connection, he supported the views expressed by the Austrian representative. He had noted with interest the suggestion by the representative of Norway that interest be charged on payments unduly delayed, an idea which should be further explored.

10. With reference to the report by the Chairman of the Programme and Budget Committee (IDB.10/29), he commended him for his success in conducting informal consultations to study relative priorities within the medium-term plan, in compliance with PBC conclusion 92/10. Despite the divergent views expressed, those consultations had proved extremely useful and had provided a constructive basis for moving on to the next, more detailed phase of consultation.

11. His delegation wished to reiterate its continuing support for the prioritization of UNIDO's activities within the framework of the medium-term plan. For the time being, it had no difficulty in endorsing the fundamental guidelines and main priorities outlined in paragraphs 8 and 9 of the report by the Chairman of the PBC (IDB.10/29).

12. Mr. ABDALLA (Sudan) said there was no doubt that the financial crisis now besetting the Organization would hamper it in its vital role of providing assistance to the least developed countries. His delegation was most concerned at the attitude adopted by those countries which had failed to commit themselves sufficiently to furthering the interests of the Organization, since that attitude had resulted in the crisis becoming further aggravated. He appealed to all countries concerned to increase their commitment, so that the crisis could be overcome.

13. The country programmes described in the Annual Report (IDB.9/10) were the most important aspect of the Organization's work, and it was those programmes which would be most affected by the situation in which the Organization now found itself. In view of the vital significance of those programmes, he would like to see the current session take appropriate measures to guarantee that they would be implemented.

14. Mr. SKRIPKA (Russian Federation) said that the decisions of the Programme and Budget Committee largely coincided with his delegation's own position on the issues discussed. His delegation also endorsed the Committee's conclusion that authority should be delegated to the Director-General to approve projects for financing under the Industrial Development Fund, in accordance with the priority areas of the medium-term plan. However, the Secretariat should take steps to improve the quality of the projects, in terms of their relevance and effectiveness. He supported the Secretariat's proposals regarding the general lines of programming for 1993 and 1994, but felt that room should be made for the conversion and use of financial resources released as a result of cuts in military spending. Because of the interdependence of the economies of developed and developing countries, the beneficial effect of redistributing resources for peaceful industrial purposes would be felt throughout the world. One inhibiting factor in making use of the newly-released funds was the failure to devise industrial conversion programmes. That was an area in which UNIDO could play a major role, and the Fund should be regarded as the key mechanism for programming the use of the additional resources. The Director-General should be given authority to enter into discussions with the leading officials of the United Nations and of other organizations in the United Nations system, with a view to preparing an inter-agency programme for the conversion and use of the newly released financial resources for socio-economic development.

15. The Organization's present financial difficulties justified the decision, taken some years previously, to adopt a split-currency system of assessment. UNIDO's financial situation would undoubtedly have been worse if that had not been done, and the system should therefore be continued in future.

16. He was grateful to the Chairman of the PBC for organizing the informal consultations on priorities within the medium-term plan. However, he agreed with the view expressed by some other delegations that the consultations had not fulfilled the mandate assigned to them at the eighth session of the Committee. Unfortunately, an attempt had been made during the consultations to review the priorities of the plan itself. The powers of the Committee had thereby been exceeded at a particularly inopportune moment, given the imminent change of leadership of the Secretariat. As a result, there was little to show for the consultations, although the need for the Organization to adapt to present-day realities had never been more pressing. The Board would therefore have to review the medium-term plan at a future session.

17. The state of UNIDO's regional activities was worrying, and especially the Country Director programme. The solution now advanced by the Secretariat for financing the programme was questionable, since it relied simply on the generosity of donors and failed to take account of the changing relations between UNIDO and UNDP. The problem of UNIDO's Country Directors could not be tackled in isolation from the question of the existing infrastructure of regional activities and the availability of personnel and financial resources from the Department for Programme and Project Development. In view of the fact that the General Assembly was considering the establishment of joint United Nations and specialized agency missions in the various countries and regions, the problem of the Country Director programme should be tackled in accordance with the following criteria: regional coverage, compliance with General Assembly decisions concerning joint missions, and the independence of the Country Directors in the context of UNIDO's mandate. The Director-General should be asked to consider the matter and to submit his views to a future session of the Board.

18. Mr. MAŞ (Costa Rica) said that while Member States should make every possible effort to fulfil their financial obligations to the Organization, it was important to view the matter in perspective: for a rich country the payment of a contribution of several million dollars would present no problem, but payment of a sum such as $25,000 would be extremely difficult for a country such as his own. Costa Rica's current inability to pay its assessed contribution meant that it would be deprived of its right to vote.

19. The Norwegian suggestion that interest be charged on arrears of contributions seemed in principle to be a sound one, but he would suggest that such charges should only be levied once a

fairly high level of debt had been incurred, since otherwise developing countries which often had serious difficulties in meeting their financial obligations to international organizations might find themselves at a disadvantage.

20. The PRESIDENT noted that the debate on item 4 was concluded.

GUIDELINES FOR SPECIAL TRUST FUND PROJECTS (IDB.10/8, IDB.10/10, IDB.10/15)

MOBILIZATION OF FINANCIAL RESOURCES FOR INDUSTRIAL DEVELOPMENT (IDB.10/20)

THE EXTERNAL DEBT AND INDUSTRIAL DEVELOPMENT (IDB.10/20)

21. Mr. BEHRENS (Deputy Director-General, Department for Programme and Project Development), referring to document IDB/10/15, said that guidelines for development, appraisal, approval and implementation of special trust fund projects had been submitted by the Director-General to the General Conference at its fourth session. While approving those guidelines, the Conference had requested the Director-General to prepare some additions to them for submission to the Board at its tenth session, and those additions were contained in paragraph 11 (a) and (b) of the document. Their purpose was to emphasize that developmental aspects would be the main criteria for accepting special trust fund projects and that when appraising such projects consideration would be given to their relevance, cost-effectiveness and sustainability.

22. Most self-financing trust fund projects focused on provision of goods and services to individual factories, with the general aim of improving their performance, capacity utilization and overall viability. UNIDO carried out such activities only with the support of the Government of the developing country concerned. In such projects, the relation between the factories' development objectives and the government's national plan might not be obvious, and for that reason appraisal tools might have to be adapted. Certain bilateral aid organizations had the same difficulty: one such organization did not apply the standard appraisal tools established for grant aid projects to all self-financing trust fund-type projects where it was only providing direct services. He pointed out that General Assembly resolution 45/196 had recognized the usefulness of UNIDO's special trust fund mechanisms for the provision of direct services to industry with a view to assisting diversification and modernization.

23. The Conference had also requested the Director-General to present a proposal on the application of financial rule 106.21 for reimbursement of programme support costs for special trust fund projects. In that proposal (IDB.10/8, paragraphs 16-18), the Director-General suggested that the current rate of reimbursement should continue to be applied to special trust fund projects, except that for very large projects or projects with an unusual composition of inputs, specific reimbursement rates might continue to be negotiated, in line with the provisions of financial rule 106.21.

24. The Director-General had also been invited to report on the implementation of resolution GC.4/Res.28, on appraisal activities, on in-depth evaluation, and on steps taken to revise the regulatory framework for the implementation of Articles 16 and 17 of the Constitution. Document IDB.10/15 contained a report on the first three questions, while a separate report had been submitted on the regulatory framework (IDB.10/10).

25. Document IDB.10/20 reported on the implementation of the actions and measures called for in General Conference resolutions GC.4/Res.21, on mobilization of financial resources for industrial development, and GC.4/Res.22, on the external debt and industrial development. Because of the very considerable degree of overlap between UNIDO activities aimed at the mobilization of financial resources for industrial development and activities directed towards alleviating the effects of external debt on such development in developing countries, the document provided a single joint report on the two subjects. It covered a number of topics, including innovations in industrial financing; promotion of direct mobilization of financial resources; cooperation with international, regional and bilateral financing institutions for development; conforming with the priorities of UNIDO's Constitution and the medium-term plan; coordination with subregional and regional development banks and international financing institutions; and assistance to developing countries in identifying, designing and financing industrial projects in response to their needs.

26. The report also summarized activities with regard to UNIDO technical cooperation and the alleviation of the debt burden and described UNIDO inputs in current methods of industrial financing and the development of innovative approaches. It included consideration of the debt problem and developing countries' priorities in planning, formulating and implementing UNIDO activities and reviewed the situation of the Industrial Development Fund.

27. Ms. RADICE (United Kingdom), speaking on behalf of the European Community and its Member States, noted that the issue of UNIDO's trust funds had been extensively discussed at the General Conference of November 1991, and again at the ninth session of the Programme and Budget Committee, the representative of the European Community had stressed the importance of more detailed guidelines and procedures for such trust funds.

28. With regard to document IDB.10/15, she was not fully convinced that the guidelines had been fully adhered to: the action proposed did not seem to be compatible either with previous resolutions or with the decisions of UNIDO's policy-making organs on the matter. In her delegation's view, trust funds should not receive treatment different from other developmental activities of UNIDO as far as their transparency and their conformity with the objectives of the Organization were concerned.

29. Even in the current financial crisis, UNIDO should only undertake activities that satisfied qualitative criteria. She looked forward to receiving the clarifications that would enable the Board to reach a decision at its eleventh session.

30. Mr. PLUG (Netherlands), speaking on behalf of the delegations of Belgium, Denmark, Germany, Greece, Portugal and Spain as well as his own, referred to the Director-General's report on the guidelines for special trust fund projects (IDB.10/15). He noted that according to

paragraph 4, only 50 trust fund projects had been appraised out of a total of 97, and only six of those had been in conformity with the rules. Twenty-eight projects had had to be reformulated, and 16 had been the subject of divergent views, which meant that they had not been up to appraisal standards. The disquieting conclusion was that 70 per cent of trust fund projects had either not been appraised when first presented, or had given rise to a negative appraisal.

31. Furthermore, according to paragraph 5, the appraisal tools used were not sufficient to appraise special trust funds, especially self-financing trust funds, the Director-General concluding that additional resources should be made available to adapt the appraisal criteria. The text of paragraph 5 was clearly contrary to decision GC.4/Dec.11, resolution GC.4/Res.28 and decision IDB.9/Dec.7.

32. Paragraph 6 stated that the Director-General had issued a revised bulletin (UNIDO/DG/B.73/Rev.1) containing administrative instructions for the development, appraisal and implementation of special trust funds projects. Paragraphs 7 to 13 of the bulletin contained procedures to ensure that the projects would be designed and formulated in accordance with the guidelines contained in the UNIDO Project Design Reference File. He felt that the appraisal criteria applied to trust fund projects should not be special; they should be the same as those applied to UNIDO's other development activities. He had noted the statement, in paragraph 6 of the Director-General's revised bulletin, that the Industrial Cooperation and Management Branch would inform the Area Programmes Division of any projects being developed and that the Division would inform the Branch of all opportunities for developing special trust fund projects. That appeared to imply that the Area Programmes Division was merely being informed, but was not to play any role in the decision-making process, with the result that special trust fund projects would, in fact, be treated differently from other UNIDO activities.

33. Again, it was stated in paragraph 7 of the Director-General's bulletin that the Industrial Cooperation and Management Services Branch would design and formulate special trust fund projects "if necessary with the advice of the Programme and Project Appraisal Section", which implied that the advice of the Section would not be given as a general rule.

34. According to paragraph 9 of the bulletin, the appraisal of trust fund projects should follow the quality criteria set out in the annex to document GC.4/28, which had been adopted, by decision GC.4/Dec.11, paragraph (d), as a basis for all UNIDO projects. At the same time, however, resolution GC.4/Res.28 requested the Director-General to amend the definitions for appraisal criteria in line with decision GC.4/Dec.11, paragraph (d). At its ninth session, the Board had again confirmed the wishes of Member States in that respect, in decision IDB.9/Dec.7.

35. The conclusion was irresistible that the Director-General's bulletin was not fully in line with the decisions and resolutions adopted by UNIDO's various governing bodies. Worse, the text of paragraph 9 of the bulletin meant that decisions GC.4/Dec.11, GC.4/Dec.28 and IDB.9/Dec.7 were not being applied. Further, it appeared from paragraph 17 of the bulletin that the Director-General had delegated his authority to approve trust fund projects, contrary to paragraph 7 of resolution GC.4/Res.28. All in all, a number of statements in document IDB.10/15 were not in conformity with resolution GC.4/Res.28, according to which the Director-General was to issue a revised bulletin including a complete and updated, comprehensive and transparent regulatory framework for the implementation of Articles 16 and 17 of the Constitution.

36. He concluded that both the Director-General's bulletin 18/Rev.1, on Model Agreements and Guidelines for Projects, and his bulletin 73/Rev.1, on Trust Fund Projects, needed to be made compatible with the resolutions and decisions on trust funds taken by the various policy-making organs of UNIDO, as well as with each other. Document IDB.10/15 ought to be revised in that light. In the meantime, the delegations on whose behalf he was speaking reserved their position on the "proposed additions to the guidelines" referred to in paragraph 11.

37. Mr. HELLER (Mexico), referring to agenda items 8 and 9, drew attention to the views expressed by various multilateral financial institutions with regard to the mobilization of financial resources for industrial development and the external debt. During the 1990s, the developing countries were expected to encounter continuing difficulties in obtaining sufficient external financing to revive their industrial development. Although private financial flows had increased in recent years, official development assistance, and especially multilateral aid, had failed to keep pace. Many countries had difficulty in coping with debt repayment and servicing, despite some progress in handling the external debt problem. The work being done by the various United Nations organs to mobilize financial resources for development and to alleviate the debt burden of the developing countries was therefore all the more important. He welcomed UNIDO's constructive efforts in that direction, as recorded in document IDB.10/20. UNIDO should continue to strengthen its links with international and bilateral financing institutions, with a view to financing industrial development projects and pursuing activities in which it had a particular advantage. It should focus its efforts on the innovative machinery proposed by the Director-General with regard to venture capital companies and funds and country funds focused on developing country stock markets.

38. The Governments of the industrialized countries should offer incentives for industrial development projects which would mobilize funds for industry in the developing countries. He stressed the need for a policy of steadily increasing the capital of the international financial institutions, to preserve their role as promoters of industrial development.

39. When called upon by Governments to do so, UNIDO should offer expert advice on policies for private investment in industry, whether from domestic or from foreign resources. A further aspect to be considered in the context of mobilizing financial resources was the relief of poverty. Some of UNIDO's projects should be directed to the poorest sectors of the population, especially through training and the improvement of living conditions.

40. Mr. VELAZQUEZ (Peru), referring to agenda item 7, said that trust funds were one of the pillars of UNIDO's future work. The revitalization of UNIDO's operational mechanisms,

especially the trust funds and investment promotion, would play an important role in the restructuring of the Organization, because of their direct links with international markets. The trust funds were particularly worthy of support and offered promising prospects for the industrial development of the developing countries. The investment promotion network should remain closely linked to trust fund activity, to ensure effective coordination with international financial institutions. His delegation supported the guidelines set out in document IDB.10/15, which appeared to be sufficiently flexible to meet the requirements of each situation, country and market. The appraisal criteria for trust fund projects, as for other UNIDO projects, should take account of the viability of the project, its financing, the cost benefit ratio, and its commercial competitiveness.

41. Turning to agenda item 8, he said that the debate on the mobilization of financial resources should be based on a reaffirmation of the Bangkok mandate and should pursue specific lines of action. UNIDO should continue to formulate recommendations on innovations in industrial financing. The System of Consultations should be strengthened so as to constitute a forum for investment promotion and transfer of technology. Efforts should be made to find additional resources for the Industrial Development Fund, as well as to secure trust funds for improving the industrial competitiveness of developing countries. The mobilization of financial resources should also lead to better coordination between UNIDO and the international financial institutions.

42. Turning to agenda item 9, he stressed the need for a lasting solution to the external debt problem, through joint action by the creditor countries. The problem must be tackled by introducing concessionary terms. There was a clear link between trade liberalization, the free flow of capital, levels of industrialization and debt repayments. The debt crisis had seriously restricted the availability of funds for industrial development in debtor countries. The Board should therefore take a decision to adopt measures to alleviate the imbalance in the economies of the developing countries resulting from the debt servicing problem and its impact on industry. The new methods for mobilizing financial resources defined in document IDB.10/20 would, if applied, redound to the benefit of the debtor countries, and the Board should resolve to act upon them. Special emphasis should be placed on countries in which UNIDO was active, especially with regard to the pre-investment stage of projects and their financing. UNIDO should also step up its coordination with the international financial institutions, with a view to developing innovative approaches to debt relief.

43. Mr. CHEN Shiqiu (China), speaking on agenda item 7, welcomed the fact that the special trust fund programme now provided an important part of the resources available for technical cooperation, and a source of additional funding, in line with General Assembly resolution 45/196. Noting that in the present financial situation funds for technical cooperation and for UNIDO's operational budget had fallen, he expressed the hope that the departments of UNIDO responsible for the trust fund programme would be strengthened and the scope of the programme expanded. He supported the two additions proposed by the Director-General to the guidelines for special trust fund projects, in accordance with resolution GC.4/Res.28. The rapid growth of the programme in recent years was due to the swift identification and approval of projects and the streamlining of procedures. Project evaluation and monitoring should be improved, but should not become over-bureaucratic, and efforts should be made to maintain the effective features of the trust fund programme.

44. Turning to agenda item 8, he noted that the mobilization of financial resources for industrial development was a major task for UNIDO. In discussing it, due account should be taken of the drastic changes which had occurred world wide and of the critical situation within UNIDO itself. The problem of inadequate financial resources for development in the developing countries was an ongoing one and was unlikely to be alleviated in the short term. He welcomed the continuing efforts of the Secretariat to mobilize resources for development, and to help the developing countries in the rational planning and use of those resources, and noted the Director-General's recommendations in that respect, contained in document IDB.10/20. Within the framework of UNIDO's present capacity, the focus should be placed on investment promotion, South-South cooperation, and strengthening cooperation with bilateral, regional and international financial institutions, with a view to helping the developing countries to attract foreign investment. However, the Secretariat's endeavours were seriously hampered by the reduction in UNIDO's operational budget income, and he urged Member States to act swiftly to resolve that problem.

45. Ms. OK (Turkey), observing that the medium-term plan priorities were very closely linked to the mobilization of financial resources, expressed agreement with the priorities set forth in document IDB.10/5 to serve as a basis for overall resource allocation. Her delegation also agreed that implementation of the plan and the programme budget was contingent upon the provision of adequate financial resources for technical cooperation and the prompt payment of assessed contributions. UNIDO must indeed be ensured a full and stable flow of funds to meet the challenges of the present decade.

46. Another important factor was cooperation with international, regional and financial institutions for development, which should be pursued with a view to mobilizing funds and preparing new research and studies for industrial strategy and policy formulation. In the belief that IDF was the most important financial resource for UNIDO, she urged that every effort should be made to increase its resources. Her Government had pledged a special contribution to IDF equivalent to $3,570,360 for 1993, covering eight projects. In 1992 Turkey had allocated nearly $300,000 as a special-purpose contribution for eight in-plant group training programmes in Turkey, covering the cement industry and small-scale foundries. Since the start of the programme in 1979, nearly 750 specialists from African, Middle-Eastern and Asian countries had been trained.

47. Mr. MA'AJI (Nigeria), referring first to agenda item 8, commended efforts to implement resolution GC.2/Res.10, paragraph 1, on the promotion of direct mobilization of financial resources for the industrialization of developing countries. His Government attached particular importance to UNIDO's current assistance to entrepreneurs of developing countries in the identification, formulation, screening and promotion of potentially viable projects requiring

foreign investment. Noting that the enormous problems besetting the Organization did not seem to have eroded the confidence of potential donors, he said that the special expertise of UNIDO and, in particular, its dedicated staff remained a source of pride.

48. Many developing countries, including Nigeria, had introduced policies facilitating private-sector investment and promoting efficiency in industrial plants and manufacturing processes. Nigeria had engaged in debt equity swaps to mobilize resources for its development and was satisfied with the returns achieved under the programme. His Government was also giving attention to similar innovations suggested by UNIDO, such as venture capital companies and funds. It was confident that UNIDO's current activities would assist in strengthening existing and establishing new national institutional capabilities for domestic and external mobilization of investment resources and improvement of the investment climate for local and private investors.

49. Turning to item 9, he commended UNIDO's continuing efforts to alleviate the external debt burden of developing countries. In particular, a number of projects in Nigeria's petrochemical sector had been implemented with the technical cooperation of UNIDO. Other pending projects actively supported by the Organization would, coupled with his country's national funding programme and multinational donor sources, facilitate the preparation of a comprehensive support programme and thereby strengthen the external trade sector, with a beneficial impact on Nigeria's balance of trade.

50. More nevertheless needed to be done to strengthen the capacity of the developing nations, especially in Africa, to acquire financial resources and technology that would promote their exports. Such capacity had been hindered by growing debt burdens and the ineffectiveness of measures to reduce the volume and servicing of debts. Well-conceived projects could not be implemented owing to resource mobilization difficulties, and resources could not be mobilized because of mounting debt and debt service obligations. The African countries were crippled by an overall debt in excess of $130 billion, but the international community appeared to be lulled into indifference by debt-servicing improvements in a few countries. The fledgling democratic experiments under way in Africa and the requisite industrial transformation of its economies would come to nothing if the debt problem persisted. Since an improved situation in that respect would produce benefits due to liberalization of trade, privatization, commercialization and deregulation of foreign exchange, he was confident that the approach recommended by UNIDO would, if embraced by all countries, help to ease the debt situation of the developing countries. His delegation therefore wished, in conclusion, to call for a closer look at the relationship between external debt and the promotion of industrial development in the third world.

51. Mr. SURYAWINATA (Indonesia), speaking on behalf of the Asian Group and referring to agenda items 8 and 9, said the developing countries in general were severely hampered by inadequate access to technology, unabated protectionism, historically low prices for commodities and raw materials, severely contracted financial flows and the crushing burden of external debt, resulting in reverse financial flows to the developed countries and the multilateral financial institutions. The developed countries, which had pledged to set aside 0.7 per cent of their gross national product for assistance to the developing countries but had only allocated 0.3 to 0.4 per cent of GNP, should fulfil the remaining commitment, amounting to $50 billion.

52. The vastly increased development finance needs of the developing countries called for substantially higher official development assistance in real terms. With the growing difficulty of domestic mobilization of resources and the constricted flow of international capital and assistance funds, there was a compelling need at the global and regional levels for innovative approaches to industrial financing. Since the requirement at the national level was a favourable climate for domestic and foreign investment, the measures taken by the developing countries to attract foreign investment would need to be complemented, on the part of the developed countries, by measures to encourage investors to inject capital into developing countries. The conditions imposed by multilateral financial and regional development institutions should not go beyond the requirements of economic discipline.

53. UNIDO should strengthen its pre-investment activities to identify and design industrial projects in response to needs, as well as maintaining an intermediary role in seeking financing from all sources necessary for their planning and implementation.

54. Welcoming the substantive progress made in nuclear and conventional arms reductions among the major Powers, he said that unrestrained global military spending not only posed an acute danger to world peace but drained national and international economies. The Asian Group therefore considered that, particularly in the present era of détente, part of the resources released as a result of disarmament should be reallocated to the socio-economic development of all countries, particularly those in the developing world.

55. The external debt crisis of the developing countries had intensified and was being aggravated by fluctuations in the major currencies and high interest rates. Since debt reduction schemes had proved inadequate and needed to cover all kinds of debts and categories of debtors, including those that had tried hard to meet their obligations, a differentiated approach should be adopted that would allow debt cancellation for the least developed countries and more generous terms in both debt servicing and new concessional loans to lower-income developing countries. Noting UNIDO's efforts to alleviate the external debt burden of developing countries, mainly through technical cooperation projects geared to making industries more competitive and increasing the utilization of indigenous resources, he urged the Organization to continue that laudable work.

56. To help Member States secure the necessary financing for light industries, the Asian Group supported the various innovative approaches for industrial financing presented in Industry and Development: Global Report 1991/92 (ID/376), with special reference to the "build-operate-transfer" mechanism and debt equity swap schemes. UNIDO could also usefully provide further policy guidance to Member States on the management of available resources.

57. In conclusion, the Asian Group welcomed the progress report by the Director-General on mobilization of financial resources for industrial development and the external debt and industrial development as contained in document IDB.10/20.

58. Mr. ZIEGLER (Switzerland), referring to agenda item 7, observed that projects financed through trust funds had grown in 1992 into one of the main ingredients of UNIDO's budget. It was therefore essential to provide detailed information on activities and to continue implementing guidelines in accordance with the purposes of the Organization. Document IDB.10/15 represented a step in the right direction, but only the future would show whether such guidelines were truly adequate to the aims envisaged.

59. Mrs. BECKER (United States of America) said that UNIDO needed clear guidelines with criteria for acceptance of all technical assistance projects, and not just those financed through trust funds. If such criteria were too vague, UNIDO could become vulnerable to political pressures to accept projects which might fall on the edges of or outside its mandate. Her Government was likewise concerned that UNIDO's growing dependence on trust funds might make it vulnerable to economic pressures to accept large-scale projects. While perhaps more profitable for the Organization, that would move it away from focusing on small and medium-scale projects, which were an important basis for development and one of UNIDO's priorities, besides being an area in which the Organization possessed a significant advantage. Her delegation would consequently like to be assured by the Secretariat that the proposed wording in document IDB.10/15 would not nullify the guidelines in resolution GC.4/Res.28.

60. Referring to the proposed additions to the guidelines, as set out in paragraph 11 (a) and (b) of document IDB.10/15, she said that the wording would appear to remove from the guidelines the idea that special trust fund projects needed special criteria. If that was so, it would have to be asked whether the criteria used for all UNIDO projects were sufficient.

61. Mr. AFANASYEV (Russian Federation), referring first to agenda items 8 and 9, said that UNIDO's activity in helping to mobilize financial resources for industrial development had recently been gaining in importance, which was undoubtedly in the interests of all recipient countries. Of great promise and utility to them, including countries switching to a market economy, was UNIDO's work on attracting foreign investment to industry, preparing, analysing and implementing investment projects, conducting investment forums and drawing up recommendations for Governments regarding the creation of a favourable investment climate and, of course, legislation in that area.

62. Commending the considerable amount of work done by UNIDO to attract investment, netting an impressive volume of approximately $1 billion in the first eight months of 1992, he spoke of the successful investment forums organized by UNIDO in China, Poland and Spain and mentioned the Conference shortly to be held in Vienna on "The Post-Soviet Republics and New Frontiers for Trade and Development", which he was sure would assist potential investors in finding their partners in Russia and the other countries of the former Soviet Union.

63. It would also be extremely useful for UNIDO to establish and further extend businesslike cooperation with international, regional and bilateral financial institutions. He welcomed the conclusion of the first cooperation agreement with the European Bank for Reconstruction and Development, with a large loan to Poland, and felt that the practice could usefully be expanded to similar cooperation agreements with regional banks and other financial institutions. Attention should also be given to drawing up proposals for the more rational and effective utilization of locally available financial, material and human resources.

64. At the same time, his delegation believed that UNIDO's mobilizing of resources for industrial development could be further activated if Member States were provided with recommendations based on studies concerning new approaches to the financing of industrial investment, using for instance debt-equity swaps, venture capital companies and funds, and country funds focusing on stock markets, industrial leasing and "build-operate-transfer" mechanisms.

65. Noteworthy too, in his delegation's view, was UNIDO's initiative in attracting internal financial resources for small enterprises, a matter in which Russia was cooperating. UNIDO's experience in holding a regional seminar for the Latin American and Caribbean countries on debt conversion mechanisms, for use by non-governmental industrial development organizations, was also of great interest to the Eastern European countries and the republics of the former Soviet Union. A similar seminar for countries undergoing the transition to a market economy would also be extremely useful. UNIDO's assistance in seeking donor countries that might have an interest in organizing such a seminar would therefore be most welcome.

66. His delegation took a positive view of UNIDO's work to mitigate the adverse effects of the indebtedness of the developing countries by establishing special trust funds and carrying out projects aimed at making the enterprises of those countries more competitive and increasing their ability to make effective use of local human, material and financial resources, as well as developing export-orientated industries and pressing ahead with import substitution. Important in that connection was a comprehensive approach to the mobilization of financial resources and the liquidation of external debt.

67. A partial solution to the problem of external debt in the developing countries would also be assisted by the formulation of country and regional investment programmes that took due account of the needs of the recipients of assistance. In that connection, closer cooperation and coordination between the Investment Promotion Division and the Industrial Cooperation and Funds Mobilization Division would be extremely useful.

68. Turning to agenda item 7 and noting the substantial work done by UNIDO to implement General Conference resolution GC.4/Res.28 on guidelines for special trust fund projects, he said that his delegation had no objection to the additions proposed in paragraph 11 of document IDB.10/15. At the same time, it considered that the need for the appraisal criteria to take due account of the relevance, cost-effectiveness and sustainability of such projects was obvious, since

donors were unlikely to be indifferent to those considerations.

69. Furthermore, in order to obtain full information so as to determine whether any particular project was viable, his delegation considered it necessary that an analysis should be made of the particular areas in which proposed projects were to be carried out with financing from trust funds. That would pinpoint emerging trends in the requirements of the developing countries, together with the projects in recipient countries enjoying the highest priority.

70. Mr. AZIRIA (Observer for Algeria) reaffirmed his delegation's support for the System of Consultations. He welcomed the holding of a regional workshop for Latin America and the Caribbean on debt conversion schemes to be operated by non-governmental organizations in connection with the generation of finance for small-scale industries. He hoped that a similar workshop would be held for Africa.

71. With regard to the mobilization of financial resources for industrial development, his delegation regretted that the innovations recommended by UNIDO in the Director-General's progress report (IDB.10/20) did not fully reflect the realities faced by developing countries. While privatization could increase the efficiency of enterprises and reduce public budget deficits, it would produce gains which were puny by comparison with the heavy burden of debt borne by developing countries and in the light of their difficult economic situation. The direct mobilization of financial resources along the lines discussed in the report should therefore receive serious consideration from UNIDO, with attention being given to matters such as project identification and the creation of a favourable economic climate for national and foreign investors.

72. The fact that the total value of investment projects in developing countries promoted through UNIDO had risen from $556 million in 1989 to $890 million in 1991 proved the extent to which the Organization's services contributed to the mobilization of financial resources for industrial development. His delegation looked forward to further expansion in UNIDO's cooperation with international development financing institutions. He reminded the Board that the mobilization of financial resources called for in General Conference resolutions GC.2/Res.10, GC.3/Res.5 and GC.4/Res.21 could not take place without a reasonable increase in the sums received from industrial countries for financing investment promotion in developing countries. His delegation stressed the need for official development assistance from developed countries to reach the level of 0.7 per cent of gross national product, in accordance with paragraph 40 of United Nations General Assembly resolution 45/199.

73. Mr. MOON (Republic of Korea) said that his delegation welcomed the work done by UNIDO in assisting developing countries to mobilize financial resources through the Investment Promotion Service, use of consultants and preparation of project feasibility studies. The Organization should expand that work as a matter of priority, adopting a multifaceted approach which would result in integrated programmes of advice, technical cooperation and investment capable of providing a long-term solution to the problem which developing countries faced in mobilizing financial resources.

74. Mr. POPEŞCU (Romania) said that in the present biennium the Industrial Development Fund was one of UNIDO's principal mechanisms for financing technical cooperation. He was therefore glad to learn that the Organization considered the Fund to be in a stable position and that the Fund continued to enjoy the support of its major donors. It was also gratifying that investment promotion activities received high priority in the Fund's operations. That should continue to be the case, with sectoral and thematic emphasis being given to the priority areas included in the current medium-term plan. In the period 1993-1994 UNIDO should optimize the impact of the Fund's very limited resources by ensuring that it financed high-quality activities which were relevant, cost-effective and sustainable and by giving greater consideration to the geographical distribution of national projects. The Director-General's report on the Industrial Development Fund and other voluntary contributions (IDB.10/2) enumerated, in paragraph 13, various programming and management modalities which were to receive emphasis in the period 1993-1994. His delegation supported them, as well as the recommendations embodied in the draft decision reproduced in paragraph 17 of the report. He was pleased to announce that, subject to ratification of his country's 1993 budget by the parliament, his Government would contribute 1.5 million lei to the Industrial Development Fund for 1993, a sum almost double that for 1992.

75. Mr. KUMAR (India) welcomed the Director-General's progress report on mobilization of financial resources for industrial development and the external debt and industrial development (IDB.10/20). UNIDO could play an important role in mobilizing investment in industry in developing countries, including his own. It should give adequate attention to the promotion of investment in those countries from abroad, utilizing the existing network of Investment Promotion Service offices and pursuing contacts with multilateral development agencies, such as the World Bank, regional development banks and the International Finance Corporation, and with interested merchant bankers.

76. His delegation was keenly interested in the idea of an investment forum being held in India which would bring together potential foreign investors and national entrepreneurs. The climate was appropriate for such an event, since his Government had recently undertaken a far-reaching liberalization of the economy and other steps conducive to foreign investment and growth in trade. UNIDO could usefully highlight the opportunities which arose for foreign investors as a result of industrial privatization measures undertaken in many countries.

77. With regard to the external debt and industrial development, his delegation welcomed chapter II of the Director-General's progress report (IDB.10/20). It agreed that UNIDO could play an important role in alleviating the consequences of external debt for the industrial sector of developing countries. His delegation approved of the work of the Secretariat in promoting technical cooperation activities aimed at increasing the foreign exchange earning

capacity of developing countries through export production and import substitution, improved competitiveness and the full use of locally available resources. It also approved of the promotion of investment and joint ventures in developing countries and assistance to them in negotiating and evaluating transfer-of-technology agreements.

78. His delegation noted with concern the severe impact of structural adjustment programmes in developed countries on industries in heavily indebted developing countries. Those programmes were linked to debt rescheduling arrangements by creditor countries and international financial institutions. UNIDO should devote attention to that issue. Structural adjustment should not result in the closure of local industries set up with great effort and cost in developing countries.

79. Mr. SZABO (Hungary) also welcomed the progress report in document IDB.10/20. Despite all the difficulties which Hungary faced in the process of transition to a market economy, his Government had increased its pledge to the Industrial Development Fund. Its voluntary contribution of 80 million forint would involve the following projects for 1993, which were undergoing preparation in close cooperation with UNIDO and met the Organization's medium-term priorities: group training courses on highly sophisticated and computer-based medical equipment and on food quality inspection and control; a top-level management training course on enterprise-level quality systems needed for exporting to developed-country markets, based on experience obtained from Japan and the United Kingdom, with special emphasis on African needs; a workshop on industrial policies for economies in transition; and support for fact-finding missions connected with the preparation of project feasibility studies. A further training course, concerning diagnostic maintenance, was innovative in that the instructor travelled to the region concerned, thus saving developing countries the cost of sending trainees to Hungary.

80. Mr. HOSSEIN-ZADEH (Islamic Republic of Iran), speaking on the guidelines for special trust fund projects, said that reimbursement to UNIDO of the cost of programme support and administrative services for the preparation and implementation of special trust fund projects in accordance with financial rule 106.21 was an important means of helping the Organization to obtain sufficient resources for the implementation of its mandate. Special trust fund projects could offset to a considerable extent the loss to UNIDO represented by the UNDP agency support cost successor arrangements. In that respect the level of the percentage rate applied to the reimbursement of support costs was of great importance. The contents of the table in the Director-General's proposal on reimbursement (IDB.10/8) suggested to his delegation that the reimbursement rate for projects with large equipment components could be less than 10 per cent. His delegation believed that for large-scale trust fund projects the rate should be appropriate both for the agency concerned and for the recipient country.

81. He noted from paragraph 4 of the Director-General's report on guidelines for special trust fund projects (IDB.10/15) that only 51 per cent of the trust fund projects submitted to UNIDO between March 1988 and June 1992 had been confirmed. In order to do better in that respect, UNIDO should revise its appraisal criteria definitions, and in particular the appraisal tools for self-financed trust fund projects.

82. He endorsed the statement on agenda items 8 and 9 made on behalf of the Asian group of States by the Indonesian representative.

83. Mr. SAMMAK (Syrian Arab Republic) said that his delegation greatly appreciated the work done by UNIDO to help developing countries overcome the crisis caused by their heavy indebtedness. Developing-country debt, and the servicing of it alone, had multiplied at a formidable rate since the 1970s. The solution to the crisis lay in increasing the economic strength of those countries, opening international markets to their products and achieving an equitable balance between the shares of world trade enjoyed by them and the developed countries. The latter should do everything they could to reduce or write off part of the former's indebtedness, which represented a real barrier to progress in the developing world.

84. Mr. FRANÇAIS (United Nations Development Programme) said that UNIDO faced important challenges, such as the review of the industrial development strategies for the present decade, the restructuring of its organizational framework and the mobilization of the resources which it needed. It also had to deal with the transition from the tripartite collaborative system to the new modalities of programme execution for the operational activities of the United Nations system decided on by the General Assembly in resolution 44/211 and complemented by UNDP Governing Council decisions with respect to programme approach, national execution and successor arrangements for agency support costs. UNDP was aware of the problems which agencies would have to solve as a result of those changes and had therefore agreed on a period of transition during which the old arrangements would continue to apply.

85. Regarding the mobilization of resources, decision 90/34 of the UNDP Governing Council had decided that for the fifth programming cycle a growth in resources of 8 per cent per annum from a base of $1 billion in 1991 could be assumed. However, on the basis of best estimates of contributions in the fifth cycle, it had been found prudent to assume a rate of growth of 4 per cent from the actual level of contributions in 1992. UNDP had therefore established programme delivery targets for the individual years of the fifth programming cycle in accordance with the revised expectations of resources. Thus from a level of $870 million in 1991, indicative planning figure (IPF) expenditures were projected to decrease to $730 million in 1994 in order to keep within available resources. So as to ensure that IPF expenditures did not exceed targets, only 90 per cent of the fifth cycle IPFs had been released for programming.

86. The rate of new project approvals during 1992, the first year of the fifth cycle, had been somewhat slower than in 1987, the first year of the fourth cycle. However, total approved project budgets, consisting of new approvals in 1992 combined with budgets already approved before the start of the cycle, were fully consistent with the reduced expenditure targets established for 1992. Also, UNDP was starting the fifth cycle from a higher base of approved budgets than in the previous cycle. The rate of approvals was

expected to accelerate in the remainder of 1992 and in 1993. New projects approved for national execution as a percentage of all new approvals had increased significantly, from 13.5 per cent in 1987 to 37 per cent in 1992, in response to General Assembly resolution 44/211 and Governing Council decision 90/21. In absolute terms, national execution expenditures were forecast to increase to $270 million by 1994.

87. The importance of ensuring that the specialized agencies provided technical support for nationally executed projects was fully recognized by UNDP and constituted an essential feature of the new arrangements adopted for the fifth cycle. UNDP intended to review all nationally executed projects operational on 1 January 1992 so as to ensure that provision for technical support services had been made. Those services would be financed typically from the new financial facility for technical support services at the project level (TSS-2) established as part of the new support cost arrangements.

88. Projects approved for execution by the five agencies, including UNIDO, which were subject to the new regime of support costs as of October 1992 amounted to $660 million against fifth cycle resources. That compared with a target of $500 million established earlier by the Governing Council to be met by 1 January 1992. As he had indicated, that target had been established in order to provide a period of transition during which the old arrangements would continue to apply. By mutual agreement between UNDP and the agencies the application of the new arrangements had been made fully effective from 1 July 1992 only.

89. As originally envisaged, the flow of support cost resources from UNDP to the agencies during the biennium 1992-1993 was expected to approximate that for the previous biennium. Reimbursements from UNDP to the agencies would include: (a) support cost, at the rate of 13 per cent of project expenditure, in respect of projects approved under the old arrangement; (b) an amount of $25 million already committed for technical support services at the programme level (TSS-1) for the period 1992-1993; and (c) an amount of $25 million allocated for TSS-2. Reimbursements for administrative and operational services in respect of projects approved for implementation by the agencies should also be taken into account.

90. Overall, approval of new projects for execution by the agencies had declined progressively during the fourth cycle and the decline was expected to continue in the fifth cycle, to 31 per cent in 1995 as a percentage of all new approvals and to $225 million in 1994 in absolute terms. That decline should be seen in the light of the significant increases in national execution which he had mentioned. To a limited extent, reimbursements to agencies in respect of TSS-1 and TSS-2 services would replace the reduction in income from implementation.

91. UNDP, in collaboration with the agencies concerned, had undertaken an extensive series of training workshops to familiarize field practitioners in the application of the new support cost mechanisms and the underlying policy framwork approved by the Governing Council. The full programme of training, consisting of over 15 subregional workshops, was expected to be completed by the end of the year.

92. In conclusion, the arrangements agreed upon for the implementation of the new execution modalities were being implemented as foreseen and the renewed tripartite partnership should be fully operational in 1993.

93. Mr. WOTAVA (Austria) asked the representative of UNDP why the support cost successor arrangements had been implemented somewhat late by UNDP.

94. Mr. FRANÇAIS (United Nations Development Programme) replied that UNDP did not feel that to have been the case. It believed that the difficulties which some agencies were experiencing were connected with the fact that UNDP's resources in the fifth cycle would be lower than expected, as a result of which it had lowered its programming target for that period. The fact that the share of projects subject to national execution had been increasing steadily was also relevant.

The meeting rose at 1 p.m.